



STATE OF IOWA

IOWA CAPITAL INVESTMENT BOARD
G.R. NEUMANN, CHAIR

February 3, 2006

The Honorable Thomas J. Vilsack
Governor of Iowa
Statehouse

Michael Marshall
Secretary of the Senate
Statehouse

Margaret Thomson
Chief Clerk of the House
Statehouse

Dear Governor Vilsack, Mr. Marshall and Ms. Thomson:

Enclosed is the annual report of the Iowa Capital Investment Board submitted in accordance with Iowa Code section 15E.46. This includes a listing of all qualifying businesses and community-based seed capital funds which have been approved by the Board, along with the number of tax credit certificates and the amount of tax credits issued by the Board through December 31, 2005. These tax credits were authorized by 2002 Iowa Acts, House File 2271. In addition, information is provided in this report for qualifying venture capital funds, including the number of tax credit certificates and the amount of tax credits issued by the Board. These tax credits were authorized by 2002 Iowa Acts, House File 2586.

As required by Iowa Code section 7A.11A, one printed copy and one electronic copy will be delivered to the Secretary of the Senate and the Chief Clerk of the House.

Respectively submitted,

G.R. Neumann
Chair
Iowa Capital Investment Board

Enclosures

IOWA CAPITAL INVESTMENT BOARD ANNUAL REPORT

BACKGROUND

The Iowa Capital Investment Board (“Board”) was established in 2002 by an Act of the General Assembly (2002 Iowa Acts, House File 2078). The board is created as a state governmental board. The purpose of the Board is to mobilize venture equity capital for investment that will result in a significant potential to create jobs and to diversify and stabilize the economy of the state of Iowa.

The Board consists of five voting members and two nonvoting members. The five voting members are appointed by the Governor and subject to confirmation by the Senate. One nonvoting member is appointed by the Majority Leader of the Senate, and one nonvoting member is appointed by the Speaker of the House. Due to the even split in the Iowa Senate, each floor leader of the Senate appointed a nonvoting member in 2005. The Board is a public board subject to public notice and open meetings.

The primary duties of the Board include the following:

- 1) Develop a system for issuance, registration and authorization of tax credits for investments in qualifying businesses and community-based seed capital funds as provided in Iowa Code section 15E.43. This program provides for a tax credit equal to 20% of the equity investment in a qualifying business or community-based seed capital fund.
- 2) Establish a system for the issuance and redemption of tax credits for investments in venture capital funds as provided in Iowa Code section 15E.51. This program provides for a tax credit equal to 6% of the equity investment in a venture capital fund.
- 3) Establish criteria and procedures for the issuance, transfer and redemption of contingent tax credits for investments made in the Iowa Fund of Funds administered by the Iowa Capital Investment Corporation as provided in Iowa Code section 15E.66.

ACTIVITIES DURING 2005

The Board held meetings in March, June and December 2005. During 2005, six qualifying businesses and one community-based seed capital fund were certified by the Board. A list of the qualifying businesses, community-based seed capital funds and venture capital funds that have been certified by the Board are attached to this report. In addition, two qualifying business applications were tabled by the Board pending the receipt of additional information.

The Board also made changes to its administrative rules, 123—Iowa Administrative Code, Chapters 1 through 4, based upon changes made by 2005 Iowa Acts, Senate File 114 and 2005 Iowa Acts, House File 831.

Senate File 114 provided changes in the contingent tax credits administered by the Board relating to investments in the Iowa fund of funds organized by the Iowa Capital Investment Corporation. Some of these changes included removing the five year waiting period for claiming the credit, issuing the

contingent tax credit at the time of commitment of the funds, and changing when the tax credit certificates can be used.

House File 831 provided that tax credit certificates for investments in qualifying businesses and community-based seed capital funds can be issued after June 30, 2005, and can be issued until the overall cap of \$10 million in tax credits has been reached. In addition, changes were made to allow qualifying businesses to be in operation six years or less (compared to three years or less previously) and to have a net worth of \$10 million or less (compared to \$3 million or less previously) to be eligible for the tax credits. Finally, changes were made for community-based seed capital funds to allow the fund up to 48 months (compared to 36 months previously) to invest 33% of its capital in one or more qualifying businesses.

On June 28, 2005, the first contingent tax credit certificate was issued for an investment in the Iowa fund of funds. Because of the investment in the fund of funds, expenses incurred by the Board totaling \$35,000 since its inception in July 2002 were able to be reimbursed. Most of this reimbursement went to the Department of Revenue, which has an Administrative Services Agreement with the Board to prepare rules and issue tax credit certificates.

TAX CREDIT CERTIFICATES

The tax credits for the qualifying businesses and community-based seed capital funds are limited to \$10 million, and cannot be taken until 3 years after the investment was made. For example, any investments made in 2002 that qualify for the tax credit cannot be claimed until the 2005 tax year. The tax credits were limited to \$3 million for credits issued during the fiscal year beginning July 1, 2002, \$3 million for credits issued during the fiscal year beginning July 1, 2003, and \$4 million for credits issued during the fiscal year beginning July 1, 2004. Through June 30, 2005, only \$1.8 million in total credits were issued for these three fiscal years. With the passage of 2005 Iowa Acts, House File 831, tax credits will be issued until the total \$10 million cap is reached. The amounts of tax credits issued in 2005 are as follows:

	Tax Credits Issued	Dollar Amount of Tax Credits
Investments made in 2002	7	\$67,122
Investments made in 2003	117	\$162,112
Investments made in 2004	220	\$515,804
Investments made in 2005	<u>62</u>	<u>\$423,065</u>
Totals	406	\$1,168,103

The tax credits for venture capital funds are limited to \$5 million, and cannot be taken until 3 years after the investment was made. There is no cap per fiscal year regarding these credits. The amounts of tax credits issued in 2005 are as follows:

	Tax Credits Issued	Dollar Amount of Tax Credits
Investments made in 2004	39	\$91,800
Investments made in 2005	<u>65</u>	<u>\$712,740</u>
Totals	104	\$805,540

A log listing the total of tax credit certificates issued to investors of each qualifying business, community-based seed capital fund and venture capital fund is attached to this report.

One contingent tax credit certificate totaling \$12 million was issued in 2005 relating to investments in the Iowa fund of funds.

FUTURE ACTIVITY AND CONCERNS

The Board believes that capital formation in Iowa has been significantly benefited by the availability of the tax credits. We believe the Qualifying Businesses which have been registered and the existence of a venture capital infrastructure as evidenced by the Community-Based Seed Capital Funds and Venture Capital Funds which have registered will benefit the State of Iowa in the future. Usage of the tax credits has not met expectations, however, since only \$2.2 million of the \$10 million of available tax credits have been issued through December 31, 2005. The Board urges that more promotion of this tax credit program continue to be done. Some of this promotion, done primarily by the Department of Economic Development, has already taken place. In addition, the extension of the tax credits for qualifying businesses and community-based seed capital funds beyond June 30, 2005, along with the first investment in the Iowa fund of funds, should assist with this effort.

SUMMARY

The Board continues to meet on a periodic basis to review applications from qualifying businesses, community-based seed capital funds and venture capital funds. Also, tax credit certificates continue to be issued by the Board for these qualifying investments. In addition, the Board will continue to work with the Iowa Capital Investment Corporation and the Iowa Department of Economic Development Board to promote venture capital and economic development activities in Iowa.

**ICIB APPLICATIONS LOG – QUALIFYING BUSINESSES
AND COMMUNITY-BASED SEED CAPITAL FUNDS**

<u>Date Received</u>	<u>From</u>
1 12/31/02 Approved 2/24/03 Rescinded 9/2/04	Brain Fingerprinting Laboratories, Inc. Ernest Robson, III, President 108 West Palm Drive Fairfield, IA 52556
2 01/02/03 Approved 2/24/03	Proplanner, Inc. Dave Sly, CEO & President 2321 North Loop Drive Ames, IA 50010
3 01/02/03 Approved 2/24/03	Sciengistics, LLC Peter Porto, President 300 SW 5 th Street, Suite 200 Des Moines, IA 50309
4 01/02/03 Approved 2/24/03	Emerging Growth Capital Fund, LP Gregg Barcus, President 500 SW 5 th Ave., Suite 200 Des Moines, IA 50309
5 01/02/03 Approved 2/24/03	Des Moines Technology Business Accelerator, LLC (dba Emerging Growth Group) Gregg Barcus, President 300 SW 5 th St, Suite 200 Des Moines, IA 50309
6 01/03/03 Approved 2/24/03	Newsletter Ease, LLC Thomas Hamilton, CEO 300 SW 5 th St., Suite 200 Des Moines, IA 50309
7 01/03/03 Approved 2/24/03	Web Interactive Solutions, LLC George Wood, President 300 SW 5 th St. Suite 200 Des Moines, IA 50309
8 01/06/03	Lightwaves Systems, Inc.

- Approved 2/24/03** Phil Kennedy, President & CEO
1131 Wenig Road NE
Cedar Rapids, IA 52402
- 9 01/28/03
Approved 2/24/03 **Ames Seed Capital LLC**
David Maahs, Secretary
1601 Golden Aspen Drive, Suite 110
Ames, IA 50010
- 10 02/20/03
Rejected 6/9/03 **Harvest Services, Inc.**
Joseph Meshi, CEO
3076 99th St.
Des Moines, IA 50322
- 11 03/03/03
Approved 6/9/03 **Reality Sports Entertainment, Inc**
Jack E. (Cactus Jack) Barringer
3203 Greenwood Circle
Ames, IA 50517
- 12 03/31/03
Approved 6/9/03 **Phytodyne, Inc.**
Joe Leafstedt, Chief Operating Officer
2711 South Loop Drive, Suite 4400
Ames, IA 50010
- 13 03/31/03
Approved 6/9/03 **Phasient Learning Technologies, LLC**
Paul Juffer, Member
3737 Woodland Avenue, Suite 200
West Des Moines, IA 50266
- 14 03/31/03
Approved 6/9/03 **Full Partner, LLC**
Scott Hickey, CEO & President
2280 W. Tyler Ave., Suite 204
Fairfield, IA 52556
- 15 03/31/03
Approved 6/9/03 **Combisep**
Dr. Shelley Coldiron, CEO
2711 South Loop Drive, Suite 4200
Ames, Iowa 50010
- 16 05/14/03
Approved 6/9/03 **Prairie Logic, Inc.**
Joe Stevens, CEO
209 Main Street
Ames, Iowa 50010
- 17 6/13/03 **Eastern Iowa Angel Investors, LLC**

- Approved 12/18/03** Joseph E. Peterson, Secretary
2501 Sugar Bottom Rd.
Solon, IA 52333
- 18 8/20/03 **North Iowa Venture Capital Fund, LLC**
Approved 10/31/093 Robert H. Lembke
North Iowa Area Community College
John Pappajohn Entrepreneurial Center
500 College Drive
Mason City, IA 50401
- 19 8/29/03 **Cedar Valley Venture Fund #1**
Approved 12/18/03 Katherine Cota-Uyar, Program Manager
John Pappajohn Entrepreneurial Center
University of Northern Iowa
Cedar Falls, IA 50614-0130
- 20 10/30/03 **Waters Hot, Inc.**
Approved 12/18/03 Kevin Flammang, President
3480 440th Street
Orange City, IA 51041
- 21 11/13/03 **MagnaLynx Inc.**
Approved 12/18/03 Scott A. Irwin, President & CEO
1606 Golden Aspen Drive, Suite 102
Ames, IA 50010
- 22 03/12/04 **ANE Technology Services**
Approved 9/02/04 Joel Walker, CEO
5515 NW 88th Street
Johnston, IA 50131
- 23 05/28/04 **Data Builder, Inc.**
Approved 6/24/04 Erich Lemke, President
6000 Grand Avenue
Des Moines, IA 50312
- 24 06/17/04 **Silver Beacon Media LLC**
Approved 6/24/04 Ken Yager, CFO/COO
P.O. Box 482
Bettendorf, IA 52722
- 25 09/29/04 **NLG Investors,LLC**
Withdrew 10/04 James T. Campney, Manager

1444 NW 124th Court
Des Moines, IA 50325

- 26 11/16/04 **Polymer Pipe Technology, LLC**
Approved 12/17/04 Daniel Ochylski, CEO
200 East Grand Avenue, Suite 390
Des Moines, IA 50309
- 27 11/16/04 **Star Pack Industries, LLC**
Approved 12/17/04 David Abbott, Interim CEO
c/o NewVentures
130 West Second Street
Davenport, IA 52801
- 28 12/08/04 **Iowa Commitment Fund, LP**
Approved 12/17/04 Gregg Barcus, President
6000 Grand Avenue
Des Moines, IA 50325
- 29 02/24/05 **CMNET Incorporated**
Approved 3/25/05 Dr. Abir Qamhiyah
2501 North Loop Drive, Suite 1606A
Ames, IA 50010
- 30 05/05/05 **Mob Shopper, LLC**
Approved 6/30/05 Craig Wilson, President
New Ventures Center
331 West Third Street, Suite 100
Davenport, IA 52801
- 31 05/20/05 **Spot Trac, Inc.**
Approved 6/30/05 Richard Marriott, President
300 Walnut Street, Suite 211
Des Moines, IA 50309-2258
- 32 06/15/05 **BioProtection Systems, Inc.**
Approved 6/30/05 Carl Langren, Chief Financial Officer
2901 South Loop Drive, Ste 3900
Ames, Iowa 50010-8646
- 33 10/10/05 **Solo Direct Connect, LLC**
Tabled 12/16/05 Andy Tyrrell, President
3610 73rd Street
Moline, IL 61265

- 34 10/21/05 **StowMaster Inc.**
Approved 1/9/06 Matt Larson, President
209 N. Western Street
Lake Mills, IA 50450
- 35 11/07/05 **Walker Steel Frames Homes, Inc.**
Tabled 12/16/05 William Walker, CEO
1417 280th Street
Salix, IA 51052
- 36 11/08/05 **Blue Sky Creamery, Inc.**
Approved 12/16/05 Thomas J. Paskach, President & CEO
1323 XB Place
Boone, IA 50036
- 37 11/21/05 **Freedom Fuels, LLC**
Approved 12/16/05 Dale W. McBride, Treasurer
P.O. Box 356
Hampton, IA 50441
- 38 11/30/05 **Rock River Capital, LLC**
Approved 12/16/05 Bruce Jennings, Chair
1302 S. Union Street
Rock Rapids, IA 51246

ICIB APPLICATIONS LOG – VENTURE CAPITAL

<u>Date Received</u>	<u>From</u>
1-V 05/15/03 Approved 6/9/03	AAVIN Equity Partners I, LP James Thorp, Manager 118 Third Ave. S.E., Suite 630 Cedar Rapids, IA 52401
2-V 08/20/03 Tabled 10/31/03	North Iowa Venture Capital Fund, LLC Robert H. Lembke, President North Iowa Area Community College – John Pappajohn Entrepreneurial Center 500 College Drive Mason City, IA 50401
3-V 12/12/03 Approved 12/18/03	Iowa First Capital Fund, LP Dennis Wangeman 222 Third Ave. SE, Suite 12 PO Box 607 Cedar Rapids, IA 52406-0607
4-V 09/13/04 Approved 09/30/04	WestWind Partners, LLC Thomas Glenn Rotherham, Senior Vice President 249 Research Parkway Davenport, IA 52806
5-V 09-29-04 Approved 12-1-04	NLG Investors, LLC James T. Campney, Manager 1444 NW 124 th Court Des Moines, IA 50325

ICIB APPLICATION LOG - VENTURE CAPITAL FUNDS

Venture Capital Fund	Status	Credits 2005	Credits 2006	Credits 2007	Credits 2008
AAVIN Equity Partners I, LP	Approved 6/03	174,348.00		89,325.00	103,740.00
North Iowa Venture Capital Fund LLP	Tabled 10/03				
Iowa First Capital Fund LP	Approved 12/03		384,600.00		
West Wind LLC	Approved 9/04				609,000.00
NLG Investors LLC	Approved 11/04			91,800.00	
Total		174,348.00	384,600.00	181,125.00	712,740.00